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## **NEWS RELEASE**

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### **PSC ORDERS AUDIT OF MARTIN COUNTY WATER DISTRICT** *Opens new investigation into district's operations and management*

FRANKFORT, Ky. (June 27, 2006) – The Kentucky Public Service Commission (PSC) has ordered a comprehensive audit of the operation and management of the Martin County Water District.

In an order issued today, the PSC opened a new investigation it said is intended “not only to identify the existing deficiencies in Martin District’s management and operation but to identify possible solutions to those deficiencies and possible courses of action to improve the quality of service.”

An independent audit that will “investigate Martin District's management, engineering and technical operations” will be the first step in the investigation, the PSC said.

State law requires a utility to bear the cost of a management audit. Because of Martin County Water’s financial condition, the cost of the audit could impose a hardship on the utility and its customers, the PSC noted.

Therefore, the PSC obtained an alternative source of funding for the audit. The Kentucky Division of Water has agreed to provide a grant to cover nearly the entire cost of the audit.

This will be the second PSC investigation of Martin County Water in four years. The district, which is based in Inez and serves about 3,000 customers, has been under heightened PSC scrutiny since April 2002, when equipment failures led to a system-wide water shortage and triggered a PSC staff investigation into Martin County Water’s financial stability and ability to provide adequate service.

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The 2002 investigation uncovered a number of issues, including inadequate financial controls, system unreliability due to insufficient maintenance and deteriorating equipment, and persistent problems with water loss from leaking lines and overflowing storage tanks.

In late 2003, Martin County Water agreed to take a series of actions to remedy the problems identified by the PSC staff. Martin County Water also contracted with American Water Services, a private firm, to manage the district's operations.

In today's order, the PSC notes that "while Martin District has made some progress" since late 2003, the progress "has been slow and unsteady." Martin County Water has yet to meet many of the conditions set forth in the agreement, is two years behind in filing annual reports with the PSC and has terminated the agreement with American Water Services and resumed full responsibility for operating the system.

In light of the ongoing problems, a new investigation and a management audit are necessary, the PSC said.

Today's order can be found on the PSC Web site, which is [psc.ky.gov](http://psc.ky.gov). The case number is 2006-00303.

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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